

Functional Series **600: **Budget and Finance****
 ADS Chapter **636** - PROGRAM FUNDED ADVANCES

TABLE OF CONTENTS

636	PROGRAM FUNDED ADVANCES
636.1	Authority
636.2	Objective
636.3	Responsibility
636.4	Definitions
636.5	POLICY
636.5.1	APPLICABILITY
E636.5.1	Applicability - N/A
636.5.2	METHODS OF ADVANCING FUNDS
E636.5.2	Methods of Advancing Funds - N/A
636.5.2a	AGENCY ISSUED LETTER OF CREDIT (LOC)
E636.5.2a	Agency Issued Letter of Credit (LOC) - N/A
636.5.2b	PERIODIC TREASURY ADVANCES BY CHECK/ACH OR EFT
E636.5.2b	Periodic Treasury Advances by Check/ACH or EFT - N/A
636.5.2c	REIMBURSEMENT
E636.5.2c	Reimbursement
636.5.3	AMOUNT OF ADVANCES
E636.5.3	Amount of Advance - N/A
636.5.3a	AMOUNT LIMITATIONS
E636.5.3a	Amount Limitations
636.5.3b	EXCESSIVE ADVANCES/PERIODIC REVIEW OF REQUIREMENTS
E636.5.3b	Excessive Advances/Periodic Review of Requirements
636.5.4	BANKS AND DEPOSITORIES
E636.5.4	Banks and Depositories - N/A
636.5.5	DEPOSITORY INTEREST REMITTANCES
E636.5.5	Depository Interest Remittances
636.5.6	ADVANCES FOR CONTRACTS, GRANTS AND COOPERATIVE AGREEMENTS
E636.5.6	Advances for Contracts, Grants and Cooperative Agreements
636.5.6a	ADVANCES TO NON-PROFIT ORGANIZATIONS FOR CONTRACTS, GRANTS AND COOPERATIVE AGREEMENTS FOR CONTRACTS, GRANTS AND COOPERATIVE AGREEMENTS
E636.5.6a	Advances to Non-Profit Organizations for Contracts, Grants and Cooperative Agreements - N/A
636.5.6b	ADVANCES TO FOR-PROFIT ORGANIZATIONS FOR CONTRACTS WITH FOR-PROFITS
E636.5.6b	Advances to For-Profit Organizations for Contracts, Grants and Cooperative Agreements - NA
636.5.6b(1)	FUNDING CHARGES ON ADVANCES FOR CONTRACTS WITH FOR-PROFITS

E**636.5.6b(1)** Funding Charges on Advances for Contracts with For-Profits - N/A

636.5.6b(2) WAIVING FUNDING CHARGES ON ADVANCES

E**636.5.6b(2)** Waiving Funding Charges on Advances for

Contracts with For- Profits - N/A

636.5.7 ADVANCES UNDER HOST COUNTRY CONTRACTS/GRANTS

E**636.5.7** Advances Under Host Country Contracts/Grants - N/A

636.6 Supplementary Reference - N/A

636.7 Mandatory References

ADS 302

ADS 303

FAR 32-2

FAR 32-4

OMB Circular A-110

Functional Series 600: **Budget and Finance**
ADS Chapter **636** - PROGRAM FUNDED ADVANCES

636.1 Authority

1. 22 CFR 226 (USAID Regulation 26)
2. 31 CFR 205
3. Treasury Circular 1075
4. Treasury Fiscal Manual, Vol. 1, Part 6, Chapter 2000
5. Treasury Fiscal Manual, Vol. 1, Part 6, Chapter 8000
6. OMB Circular A-110
7. Federal Acquisition Regulations
8. USAID Policy Determination 18

636.2 Objective

To prescribe policy on advances made to program-funded contracts and assistance awards which assures that organizations receiving USAID funds are provided appropriate financing for work carried out under agreements with USAID.

While this is intended for Program Funded Advances, it is not solely limited to them.

The prescribed policy is not intended to apply to all possible situations involving advances. Direct questions concerning its application in a particular situation, not fully addressed here to the Bureau of Management, Office of Financial Management; Policy, Planning, and Compliance Division (M/FM/PPC).

636.3 Responsibility

1. Chief Financial Officer (CFO)

Evaluates and consults with the Procurement/Assistance Executive on requests to provide advances to for-profit organizations under contracts.
2. Deputy Chief Financial Officer (DCFO)

Approves periodic advances for periods in excess of 30 calendar days increments for USAID/W.
3. Bureau for Management, Office of Financial Management, Cash Management and Payments Division (M/FM/CMP)

- Ensures for USAID/W that outstanding advances for the contractors and recipients are periodically reviewed (at least quarterly) so that funds advanced are not in excess of immediate disbursement needs.
- For USAID/W, approves advances when the projected total value of the advance will be less than \$50,000 during any point of the contract period.
- Issues instructions for Letters of Credit (LOCs).

4. Mission Controller

- Determines that recipient's financial systems meet acceptability requirements for making advances at mission.
- Ensures that outstanding advances for the contractors and recipients are periodically reviewed (at least quarterly) so that funds advanced are not in excess of immediate disbursement needs.
- Ensures that annual audit/financial review requirements includes review of interest/remittance status.
- Approves advances when the projected total value of the advance will be less than \$50,000 during any point of the contract period.

5. Procurement/Assistance Executive

Approves or disapproves requests to provide letter of credit advances, or advances projected to exceed \$50,000 at any point during the contract period to for-profit contractors in conjunction with CFO consultation.

For USAID/W, determines that organization's financial systems meet acceptability requirements for making advances.

636.4 Definitions (See Glossary)

ABA
ACH
advance or advance payment
Agency-issued Letter of Credit (LOC)
CFO
DCFO

DHHS
EFT
HHS
interim payment
minority-owned bank
mobilization payment
outlays or expenditures
partial payment
periodic advance by Treasury Check/ACH/EFT
progress payment
Public International Organizations (PIO)
recipient
women-owned bank
working capital advance

636.5 POLICY

The statements contained within the .5 section of this ADS chapter are the official Agency policies and corresponding essential procedures.

636.5.1 APPLICABILITY

The agency has extended the Federal policy which endorses providing advances in reasonable amounts to nonprofit, educational, or research institutions for experimental, developmental or research work to all nonprofit organizations, including U.S. or non-U.S., international private voluntary organizations, domestic American, educational and research institutions, and international research institutions.

Under certain conditions advances may be extended to organizations operating for profit. Examples of situations which may warrant providing advances to for-profit organizations are

- a) Where the delivery and/or performance requires
 - The participating contractors and/or recipients to have large amounts of working capital to perform, and
 - The contractors and/or recipients, themselves, do not possess, nor do they have access to the necessary capital, or
- b) Where the for-profit contractor is providing advances to grantees, or
- c) In exceptional cases (especially with foreign contractors or contracts performed wholly or partially in foreign countries), when

due to special circumstances it is necessary to obtain performance under a contract or to avoid restricting competition.

Policy on program funded advance payments is dependent to some extent upon the type of obligation (or commitment) instrument under which the advance is made. The following policies only apply for advances made against

- USAID-direct contracts;
- Grants and cooperative agreements covered by ADS Chapter 303 (See Mandatory Reference ADS 303); and
- Host country contracts.

The policy does not apply to advances provided to

- Travelers funded under Travel Authorizations (TA);
- Individuals;
- Direct assistance to Public International Organizations (PIO); or
- Short-term, small value (less than \$25,000) grants such as those used for Special Self Help (SSH) and Special Development Assistance Agreements (SDAA).

E636.5.1 Applicability - N/A

636.5.2 METHODS OF ADVANCING FUNDS

Methods of advancing funds, in order of declining preference are

- Letter Of Credit (LOC)
- Periodic Treasury Check/Automated Clearing House (ACH) or Electronic Funds Transfer (EFT)

M/FM/CMP must clear on any deviation from the standard clauses or provisions on Advance Payments prior to approval under the requirements of the AIDAR (mandatory reference ADS 302 or ADS 303 as applicable).
(See Mandatory Reference ADS 302 and ADS 303)

Only one method of advance funding (LOC or Periodic Payment) or Reimbursement shall be used for a recipient.

When an organization does not have an acceptable financial management system, payment shall only be made on an incurred cost reimbursement basis.

E636.5.2 Methods of Advancing Funds - N/A

636.5.2a AGENCY ISSUED LETTER OF CREDIT (LOC)

The LOC is preferred over other advance payment mechanisms, if the recipient is eligible to use it. It results in the shortest period of borrowing for Treasury and therefore costs the least in added interest charges to the Government. General criteria for using LOCs are

- The amount of funding equals or exceeds \$50,000 per year,
- There is a continuing relationship with the organization for at least one year, and
- The organizations financial management system meets Federal standards for fund control and accountability.

While the award instrument authorizes the LOC, the LOC is a separate agreement between the organization and USAID. The terms and conditions of the LOC are cited within the LOC instructions issued by Bureau of Management, Office of Financial Management, Cash Management and Payment Division, Grants and Interagency Billings Team (M/FM/CMP/GIB) and the general operating requirements imposed by the USAID LOC servicing agent. Currently the USAID LOC servicing agent is the Department of Health and Human Services (DHHS).

Generally, an LOC is not issued to recipients who are

- Non-U.S. organizations - those organized, located and operated outside the United States. This is because the LOC requires the recipient to bank at an institution that has an American Banking Association (ABA) routing number for funds transfer;
- International organizations located overseas except for United Nations organizations; or
- For fee or profit contracts except with the explicit approval of the Agreement/Procurement Executive, with prior consultation with the Chief Financial Officer (CFO).

E636.5.2a Agency Issued Letter of Credit (LOC)

Where feasible, all advance funding using LOCs for an organization shall be consolidated into a single LOC. This includes funding that ordinarily does not qualify because it does not meet the total criteria established for the LOC method.

636.5.2b PERIODIC TREASURY ADVANCES BY CHECK/ACH OR EFT

Payments are based upon either an organization's pre-outlay request or through the use of predetermined payment schedules. Periodic advances are used when the advance is justified, but the conditions for an LOC cannot be met. The organization's financial management system must still meet the Federal standards for fund control and accountability, otherwise the reimbursement method is required. **(See ADS 636.5.2c)**

E636.5.2b Periodic Treasury Advances by Check/ACH or EFT - N/A

636.5.2c REIMBURSEMENT

Payment is made based on a request for reimbursement from the recipient. This method is required when financial management systems requirements for advance funding cannot be met. Additionally, this method shall be used on any construction grant or cooperative agreement or if the major portion of the program is accomplished through private market financing or Federal loans and the Federal assistance constitutes a minor portion of the program.

E636.5.2c Reimbursement

When this method is used, USAID shall make payment as close as possible to the 30th day after receipt of the billing, unless it is determined that earlier payment is more economically advantageous to the government under the provisions of OMB Circular A-110. The determination is made on a case-by-case basis. Documentation justifying earlier payment shall be kept with the appropriate payment files to justify early payment. **(See Mandatory Reference OMB Circular A-110)**

Improper billings shall be returned in accordance with the same circular.

636.5.3 AMOUNT OF ADVANCES

The amount of an advance payment is based on analysis of an organization's working capital requirements under a contract, grant, or cooperative agreement. The analysis considers the reimbursement cycle and, in the case of for-profit organizations, the availability of their own working capital.

E636.5.3 Amount of Advances - N/A

636.5.3a AMOUNT LIMITATIONS

Advances shall be limited to the minimum amount needed for "immediate disbursing needs" and are paid as close as is administratively feasible to the actual disbursements being made by the recipient organization. Specific limitations are

- For advances under an LOC. Immediate disbursing needs are seven days or less.
- For periodic advances by Treasury check/ACH/EFT. Immediate disbursing needs are up to 30 calendar days (one month) from the date received until expended.
- For Relief Programs. The full amount of a grant may be advanced at the time of issuance, if
 - The grant is in response to requests for contribution to relief programs;
 - Quick response is necessary; and
 - The funds are to be disbursed over a short period.
- For USAID direct contracts, grants, or other procurement and assistance arrangements which provide for advance payments in excess of 30 calendar days. These require prior approval from the USAID/W Deputy Chief Financial Officer (Deputy CFO) before being authorized.

E636.5.3a Amount Limitations

When an organization receiving cash advances by an LOC or by direct Treasury check has demonstrated an unwillingness or inability to establish procedures that will minimize the time elapsing between cash advances and their disbursement, USAID, unless prohibited by the statute(s) governing the program(s) in question, shall terminate advance financing and shall require the recipient to finance its operations with its own working capital.

Payments to such recipient organization shall be made by direct Treasury check method to reimburse it for actual cash disbursements. USAID shall process such reimbursements expeditiously so as to minimize the time elapsing between disbursement by and payment to the recipient

organization.

636.5.3b **EXCESSIVE ADVANCES/PERIODIC REVIEW OF REQUIREMENTS**

Mission Controllers and the M/FM/CMP (at USAID/W) must ensure that requests for the advance of funds are reasonable and not excessive to the recipients immediate disbursement needs.

E636.5.3b **Excessive Advances/Periodic Review of Requirements**

Mission Controllers and the M/FM/CMP must ensure that outstanding advances for the contractors and recipients are monitored on an on-going basis. At a minimum, they are periodically reviewed (at least quarterly) to ensure funds advanced are not in excess of immediate disbursement needs.

Funds in excess of immediate disbursement needs shall be refunded to USAID. The only exceptions are when the excess funds will be disbursed within seven (7) days or when the amount is less than \$10,000 and it will be disbursed within thirty (30) days.

636.5.4 **BANKS AND DEPOSITORIES**

Advances of Federal funds shall be deposited and maintained in insured accounts whenever possible or as otherwise provided in USAID regulations or implementing guidance governing endowment funds. USAID neither requires separate depository accounts for funds provided to a recipient nor does USAID establish any eligibility requirements for depositories for funds provided to a recipient. However, recipients must be able to account for the receipt, obligation, and expenditure of USAID funds and interest earned on the advances provided cumulatively by the U.S. Government.

Consistent with the national goal of expanding the opportunities for women-owned and minority-owned business enterprises, recipients are encouraged to use women-owned and minority-owned banks.

Federal funds must be Deposited into interest bearing accounts, unless (a), (b), (c) or (d) apply.

- a) The recipient receives less than \$120,000 in Federal awards per year.
- b) The best reasonably available interest bearing account is not be expected to earn interest in excess of \$250 per year on Federal cash balances.

- c) The depository requires an average or minimum balance so high that it is not feasible within the expected Federal and non-Federal cash resources.
- d) The requirement is specifically excluded by other legislative authority.

Unless otherwise legislatively authorized, any interest earned on such an account prior to the actual use of the advanced funds shall be remitted as described in ADS **636.5.6**. (**See 636.5.6**)

Except for Public International Organizations (PIOs), interest amounts up to \$250 per year may be retained by the recipient for administrative expenses.

E636.5.4 Banks and Depositories - N/A

636.5.5 DEPOSITORY INTEREST REMITTANCES

Unless a recipient is specifically authorized to retain interest, interest earned on advances from USAID is remitted to the U.S. Treasury at least annually. The Department of Health and Human Services (HHS) acts as USAID's agent to collect interest earned on advances under grants and cooperative agreements. U.S. recipients shall remit interest earnings directly to HHS.

One such specific authority for non-remittance is Debt for Development. The exception is provided to enhance the continued participation of nongovernmental organizations (NGOs) in economic assistance activities, including endowments, debt-for-development and debt-for-nature exchanges. Under this program, an NGO which is a grantee or contractor of USAID may place funds or local currencies which accrue to it as a result of economic assistance into interest bearing accounts. Any interest earned shall be used for the purpose for which the assistance was provided to the organization.

E636.5.5 Depository Interest Remittances

The remittance by the recipient to HHS shall be made electronically using the Automated Clearing House (ACH) or FEDWIRE methods or by check.

- The ACH routing number is 051036706 and the account number is 303000.
- The FEDWIRE routing number is 021030004 and the account

number is 75080098.

- The complete check address is:
Department of Health and Human Services (DHHS)
Division of Payment Management
P.O. Box 6021
Rockville, MD 20852

If the recipient erroneously sends the remittances to USAID, it must be delivered to the cashier for immediate deposit and credit to appropriation symbol 72-1435 (Treasury General Fund, Miscellaneous Collections, Interest Not Otherwise Classified).

While not specifically responsible for tracking any interest earned or its associated remittance to Treasury, the Bureau for Management, Office of Procurement (M/OP) or the Mission Controller shall ensure requirements for the recipients annual audit or financial review includes a determination that

- Interest is or is not being earned on the funds USAID advanced;
and
- If earned, the funds are being properly remitted on an annual basis.

636.5.6 **ADVANCES FOR CONTRACTS, GRANTS AND COOPERATIVE AGREEMENTS**

Advances can be made for Contracts, Grants and Cooperative Agreements to both Non-Profit and For-Profit Organizations. However, there are some differences in treatment based on the type of award and type of organization.

E636.5.6 **Advances for Contracts, Grants, and Cooperative Agreements - N/A**

636.5.6a **ADVANCES TO NON-PROFIT ORGANIZATIONS FOR CONTRACTS, GRANTS AND COOPERATIVE AGREEMENTS**

The preferred method of financing contracts, grants or cooperative agreements for non-profit organizations is through Advance Payments (either LOC or Treasury check/ACH or EFT). The method of advance funding shall be specifically authorized in the contract, grant or cooperative agreement. ADS **636.5.2** (Methods of Advancing Funds), **636.5.3** (Amount of Advances), **636.5.4** (Banks and Depositories) and **636.5.5** (Depository Interest Remittances) apply. **(See 636.5.2, 636.5.3, 636.5.4, and 636.5.5)**

E**636.5.6a** Advances to Non-Profit Organizations for Contracts, Grants, and Cooperative Agreements - N/A

636.5.6b ADVANCES TO FOR-PROFIT ORGANIZATIONS FOR CONTRACTS, GRANTS AND COOPERATIVE AGREEMENTS

For-Profit Organizations with a contract are expected to finance contract working capital requirements with their own resources or arrange to obtain appropriate financing through commercial channels (including the Assignment of Claims procedure).

Advances under contracts shall only be authorized in accordance with the provisions of the Federal Acquisition Regulations (FAR) Subparts 32.2, "Commercial Item Purchase Financing," or 32.4, "Advance Payments for Non-Commercial Items," as applicable. **(See Mandatory Reference FAR Subparts 32.2 and 32.4)**

When a contractor is authorized to award grants on behalf of USAID, the contractor shall not be expected to provide advances to the grantees with its own funds. In such cases, an LOC with the contractor which specifically provides for making advances to the grantees is the preferred funding method. Any advance payments made shall be specifically authorized by the contract.

The Procurement Executive approves advances to For-Profit contractors where the total value of the advances outstanding at any given point during the contract period is projected to be more than \$50,000. This approval is made in consultation with the CFO.

Advances with a total value of \$50,000 or less outstanding at any given point during the contract period and local currency advances of any value are approved by the Contracting Officer with the concurrence of the Mission Controller or M/FM/CMP (USAID/W). Their recommendation is made after an evaluation of a written justification from the appropriate program manager.

The preferred method of financing grants or cooperative agreements with For-Profit organizations is through Advance Payments (either LOC or Treasury check/ACH or EFT). The method of advance funding shall be specifically authorized in the grant or cooperative agreement. ADS **636.5.2** (Methods of Advancing Funds), **636.5.3** (Amount of Advances), **636.5.4** (Banks and Depositories) and **636.5.5** (Depository Interest Remittances) apply. **(See 636.5.2, 636.5.3, 636.5.4, and 636.5.5)**

E**636.5.6b** Advances to For-Profit Organizations for Contracts, Grants, and Cooperative Agreements - N/A

636.5.6b(1) FUNDING CHARGES ON ADVANCES FOR CONTRACTS WITH FOR-PROFITS

Unless waived in accordance with **636.5.2b**, interest shall be charged on advances at a rate established by the Secretary of Treasury under P.L. 92-41. The interest shall be computed on the amount of the outstanding principal advanced until it is refunded to or recovered by USAID.

Remittances made to USAID and received from the recipient by USAID for such interest charges are deposited to appropriation 72-1435 (General Funds of the Treasury, Miscellaneous Receipts, Interest Not Otherwise Classified). **(See 636.5.2b)**

If funding charges (interest) are not waived, there are no requirements placed upon the advanced funds with regard to

- Deposit to depository accounts; and
- Remittances of interest earned, if any, by the organization on the funds advanced by USAID.

E636.5.6b(1) Funding Charges on Advances for Contracts with For-Profits - N/A

636.5.6b(2) WAIVING FUNDING CHARGES ON ADVANCES FOR CONTRACTS WITH FOR-PROFITS

Approval to waive the funding charge (interest) on the advance is made by the official with authority to approve the original advance. Such a waiver shall provide written justification for not charging interest.

Generally, if the funding charge (interest) is waived, ADS **636.5.2** (Methods of Advancing Funds), **636.5.3** (Amount of Advances), **636.5.4** (Banks and Depositories) and **636.5.5** (Depository Interest Remittances) apply. However, the requirement for using the depositories under ADS **636.5.3** may also be waived if it is determined that the amount advanced is not material, and

- It will be promptly disbursed, and/or
- There is a cost/benefit to be derived in waiving the Banking and Depositories requirement.

ADS **636.5.2** (Methods of Advancing Funds), **636.5.3** (Amount of Advances) and **636.5.5** (Depository Interest Remittances) shall still apply under these waiver conditions. **(See 636.5.2, 636.5.3, 636.5.4, and 636.5.5)**

Depository interest up to \$250 or the equivalent per year may be retained by the recipient for administrative expenses.

E636.5.6b(2) Waiving Funding Charges on Advances For Contracts with For-Profits - N/A

636.5.7 ADVANCES UNDER HOST COUNTRY CONTRACTS/GRANTS

Advance payments under USAID-financed Host Country contracts/grants shall follow the same policy as advance payments for USAID-direct contracts, grants, and cooperative agreements.

E636.5.7 Advances Under Host Country Contracts/Grants - N/A

636.6 Supplementary Reference - N/A

636.7 **Mandatory References**

ADS 302

ADS 303

FAR 32.2

FAR 32.4

OMB Circular A-110

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